

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06

CIEP-02 LAB-04 SIL-01 OMB-01 STR-04 CEA-01 /102 W

----- 120792

R 101800Z JUN 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 9685

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

UNCLAS BRASILIA 4618

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: FINANCE MINISTER SIMONSEN'S TESTIMONY ON ECONOMIC POLICIES

1. SUMMARY: IN AN APPEARANCE BEFORE THE FINANCE COMMISSION OF THE CHAMBER OF DEPUTIES ON JUNE 5, FINANCE MINISTER SIMONSEN SAID (A) EXPORT SUBSIDIES ARE NECESSARY TO ALLOW BRAZIL TO PAY FOR AN EVER-EXPANDING CAPACITY FOR IMPORTS; (B) THE SYSTEM OF MINI-DEVALUATION WILL NOT BE CHANGED; (C) IT IS TOO EARLY TO ASSESS THE IMPACT OF THE TRADE ACT; (D) THE DROP IN OFFICIAL RESERVES IS ATTRIBUTABLE TO THE DEFICIT ON CURRENT ACCOUNT AND TO THE POLICY OF CASH PAYMENT FOR IMPORTS; (E) THE PROBLEM OF INCOME DISTRIBUTION CANNOT BE SOLVED BY WAGE POLICY ALONE; (F) THE GOVERNMENT'S POLICY TOWARD THE MULTINATIONALS IS A MATTER OF PUBLIC RECORD; (G) THE GOVERNMENT'S GENERAL POLICY TOWARD FOREIGN INVESTMENT WILL NOT BE CHANGED. END SUMMARY.

2. FINANCE MINISTER SIMONSEN APPEARED ON JUNE 5 BEFORE THE FINANCE COMMISSION OF THE CHAMBER OF UNCLASSIFIED

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DEPUTIES. FOLLOWING ARE THE HIGHLIGHTS OF HIS

REMARKS, WHICH WERE EITHER PART OF HIS PREPARED TEXT OR MADE DURING THE QUESTIONING PERIOD:

A. EXPORT SUBSIDIES: EXPORT SUBSIDIES ARE NECESSARY TO MEET THE EVER-EXPANDING CAPACITY OF THE COUNTRY TO IMPORT. IN REALITY, SIMONSEN SAID, BRAZIL'S TRADE RELATIONS SHOULD BE VIEWED NOT BY WHAT MUST BE EXPORTED BUT BY WHAT THE COUNTRY NEEDS TO IMPORT. THE ISSUE IS NOT WHETHER TO DEVELOP THE EXTERNAL OR INTERNAL MARKETS, BOTH MUST BE EXPANDED. INCREASE IN IMPORTS AND FOREIGN DEBT IN PAST FEW YEARS HAVE MADE BRAZIL MORE THAN EVER DEPENDENT ON THE WORLD ECONOMY.

B. EXCHANGE RATE: IN REPLY TO QUESTION ABOUT THE NEED FOR SUBSTANTIAL DEVALUATION OF THE CRUZEIRO TO HELP AGRICULTURAL EXPORTS, THE MINISTER SAID THAT SUCH A MEASURE IS NOT REPEAT NOT CONTEMPLATED -- EVEN RECOGNIZING THE NEED TO HELP THE AGRICULTURAL SECTOR. SUCH A STEP, HE CONTINUED, WOULD HAVE TWO NEGATIVE EFFECTS: (1) IT WOULD BREAK THE CONFIDENCE CREATED BY THE MINI-DEVALUATIONS AND (2) IT WOULD HURT THE BALANCING OF OUR EXTERNAL PAYMENTS WHICH DEPEND ON FOREIGN CAPITAL INFLOWS.

C. TRADE ACT: THE MINISTER REPORTEDLY REFUSED TO BE DRAWN INTO A DISCUSSION ON THE IMPACT OF THE TRADE ACT, SAYING THAT IT IS IN A STATE OF EVOLUTION AND ITS IMPACT WILL DEPEND ON HOW IT IS APPLIED IN PRACTICE. ONLY IN A FEW MORE MONTHS, HE PREDICTED, CAN AN ASSESSMENT BE MADE. AN ANALYSIS NOW, HE CONCLUDED, WOULD INDICATE THAT THE ACT COULD BE GOOD OR BAD.

D. OFFICIAL RESERVES: SIMONSEN ATTRIBUTED THE DROP IN OFFICIAL RESERVES THIS YEAR TO TWO FACTORS: (1) THE CURRENT ACCOUNT DEFICIT AND (2) THE DECISION TO REQUIRE CASH PAYMENT FOR VARIOUS IMPORTS, INCLUDING THOSE WHICH TARIFF RATES ABOVE 37 PERCENT. BECAUSE OF THIS CASH REQUIREMENT, BRAZIL LOST, ACCORDING TO SIMONSEN, ABOUT \$500 MILLION. THIS SITUATION COULD BE REVERSED AT ANY TIME, HE SAID, SHOULD A DECISION BE UNCLASSIFIED

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MADE TO HAVE THESE IMPORTS FINANCED.

E. INCOME DISTRIBUTION: REPLYING TO A QUESTION ABOUT INCOME DISTRIBUTION, THE MINISTER NOTED THAT IT IS VERY DIFFICULT TO ACHIEVE A GOOD INCOME DISTRIBUTION IN A COUNTRY WHOSE POPULATION GROWS BY 2.7 PERCENT PER YEAR, WITH MOST OF THIS INCREASE CONCENTRATED IN THE LOWER BRACKETS. HE RULED OUT THE POSSIBILITY OF SOLVING

THIS PROBLEM THROUGH WAGE POLICY ALONE. THANKS TO THE POLICY OF THE PREVIOUS GOVERNMENT, WHICH PERMITTED A 10 PERCENT GROWTH, THE GEISEL GOVERNMENT, HE NOTED, CAN NOW A IMPLEMENT A POLICY OF INCOME REDISTRIBUTION.

F. MULTINATIONALS: THE MINISTER WAS ASKED TO COMMENT ON THE SECRECY SURROUNDING A RECENT ROUNDTABLE HELD IN BRASILIA BY BUSINESS INTERNATIONAL, BEFORE WHICH SEVERAL MINISTERS SPOKE. (THE ROUNDTABLE RECEIVED CONSIDERABLE PRESS COVERAGE, MOST OF WHICH WAS PROBABLY STIMULATED BY THE FACT THAT THE PRESS WAS NOT ALLOWED TO ATTEND). THERE HAVE BEEN IMPLICATIONS IN SOME POLITICAL CIRCLES AND IN THE PRESS THAT BUSINESS INTERNATIONAL AND GOVERNMENT OFFICIALS WERE SOMEHOW TRYING TO THWART THE WORK OF THE PARLIAMENTARY COMMISSION ON THE MULTINATIONALS. IN HIS ANSWER, SIMONSEN SAID THAT (A) THE GOVERNMENT LIKES TO HAVE A CONTINUING DIALOGUE WITH FOREIGN BUSINESSMEN AND THE ROUNDTABLE PROVIDED ONE MORE SUCH OCCASION; (B) THE PRESS WAS EXCLUDED BECAUSE BUSINESMEN FEEL INHIBITED IN ASKING QUESTIONS IN THE PRESENCE OF REPORTERS AND (C) THE ANSERS GAVE TO THE QUESTIONS COULD HAVE BEEN BROADCAST IN THE MARACANA ON SUNDAY AFTERNOON.

G. ROLE OF FOREIGN CAPITAL: THE MINISTER STATED THAT THE GOVERNMENT WILL NOT REPEAT NOT ABANDON ITS POLICY WITH RESPECT TO FOREIGN INVESTMENT. THIS POLICY, HE SAID, IS THAT OF TOTAL CAPITAL FORMATION, TWO-THIRDS ARE TO BE COMPRISED BY DOMESTIC CAPITAL AND ONE-THIRD BY FOREIGN CAPITAL. SUCH POLICY, HE CONCLUDED, HAS BEEN VERY EFFECTIVE.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SPEECHES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JUN 1975
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRASIL04618
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750202-0791
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750662/aaaaceri.tel
Line Count: 154
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 27 FEB 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <27 FEB 2003 by PhilliR0>; APPROVED <04 FEB 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FINANCE MINISTER SIMONSEN'S TESTIMONY ON ECONOMIC POLICIES
TAGS: EFIN, ETRD, BR, (SIMONSEN, MARIO HENRIQUE)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006